

## Message Text

LIMITED OFFICIAL USE

PAGE 01 BELGRA 02707 01 OF 02 240950Z

10

ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 DODE-00 PA-01 PRS-01 AGR-05 SAJ-01

/093 W

----- 096655

R 231430Z APR 76

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 6404

USMISSION OECD PARIS

USMISSION EEC BRUSSELS

INFO AMCONSUL ZAGREB

LIMITED OFFICIAL USE SECTION 1 OF 2 BELGRADE 2707

E.O. 11652: NA

TAGS: ECON EGEN YO

SUBJ: DEVELOPMENTS AND TRENDS IN YUGOSLAV ECONOMY, FIRST QUARTER  
1976

REF: (A) BELGRADE A-82, (B) BELGRADE 657, (C) BELGRADE 2053

SUMMARY: PRELIMINARY FIRST QUARTER DATA SHOW CONTINUED IMPROVE-  
MENT IN AREAS OF BALANCE OF PAYMENTS AND INFLATION BUT A LOW  
RATE OF GROWTH OF PRODUCTION. IMPLEMENTATION OF NEW ACCOUNTING/  
PAYMENTS LAW IS CAUSING GENERAL UNCERTAINTY AND IN SOME PLACES,  
A SLOWING OF BUSINESS TRANSACTIONS. THE FIVE-YEAR PLAN NOW UNDER  
DISCUSSION APPEARS TO BE IMPORTANT EFFORT TO REGULATE AND COORDI-  
NATE FUTURE ECONOMIC ACTIVITY. END SUMMARY.

1. BALANCE OF PAYMENTS. PRELIMINARY FIRST QUARTER DATA SHOW  
BALANCE OF PAYMENTS CONTINUES IMPROVEMENT BEGUN IN FINAL HALF  
OF 1975. EXPORTS (VALUE) ROSE 8 PERCENT AND IMPORTS (VALUE DE-  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BELGRA 02707 01 OF 02 240950Z

CLINED 9 PERCENT, COMPARED TO THE SAME PERIOD IN 1975.

MARCH EXPORTS WERE 39 PERCENT GREATER THAN EXPORTS IN FEBRUARY WHICH WAS THE ONLY MONTH OF THE LAST SEVEN IN WHICH EXPORTS DID NOT INCREASE. GROWTH OF EXPORTS TO EEC IS REPORTED PICKING UP WITH A 20 PERCENT INCREASE IN FIRST QUARTER COMPARED TO FIRST QUARTER 1975. ACCORDING TO PRIVREDNI PREGLED, THE FIRST QUARTER TRADE DEFICIT WAS THE SMALLEST 3-MONTH DEFICIT SINCE 1973 AND NATIONAL BANK OFFICIALS CONFIRM YUGOSLAVIA HAD UNEXPECTED FIRST QUARTER CURRENT ACCOUNT SURPLUS OF OVER \$50 MILLION . (YUGOSLAV DOMESTIC MONEY SUPPLY HAS BALLOONED AS A RESULT OF THIS UNEXPECTED SURPLUS AND MONEY SUPPLY IN THE FIRST QUARTER GREW AT AN ANNUAL RATE OF 42 PERCENT COMPARED TO FORECAST GROWTH OF 18 PERCENT).

COMMENT: YUGOSLAV IMPORT CONTROLS APPEAR PRIMARILY RESPONSIBLE FOR CONTINUING IMPROVEMENT ON TRADE SIDE, ALTHOUGH GROWTH OF EXPORTS TO WESTERN EUROPE IS A FACTOR. IMPORT CONTROLS ARE STILL PROVISIONAL AND TO SOME EXTENT AD HOC WITH THE CRITERIA SEEMINGLY THE PERCEIVED NEEDS OF ECONOMY. FOR EXAMPLE, ACCORDING YUGOSLAV PRESS, IMPORT OF MOST EQUIPMENT WAS UNOFFICIALLY PROHIBITED IN FIRST TWO MONTHS OF 1976. HOWEVER, REPUBLICAN AND ENTERPRISE CRITICISM OF CONTROLS HAS INTENSIFIED WITH CHARGES THAT PRODUCTION IS NEGATIVELY AFFECTED. IN LIGHT OF GOOD FIRST QUARTER RESULTS, WE EXPECT SOME LIBERALIZATION AND IMPORTS SHOULD INCREASE IN SECOND QUARTER. LOOKING AHEAD, YUGOSLAV EXPORTS SHOULD CONTINUE TO BENEFIT FROM UPTURN IN WESTERN EUROPEAN MARKET. THIS, COMBINED WITH WHAT YUGOSLAV AUTHORITIES PREDICT MAY BE BIGGEST TOURIST SEASON EVER, AND ALREADY ACHIEVED FIRST QUARTER CURRENT ACCOUNT SURPLUS, SHOULD SCALE DOWN THE 1976 CURRENT ACCOUNT DEFICIT BELOW 1975'S \$900 MILLION. WE HAVE BEEN TOLD UNOFFICIALLY THAT THE NATIONAL BANK'S CURRENT PROJECTION IS A DEFICIT OF ABOUT \$700 MILLION. VISITING US BANKERS HAVE TOLD US THEY ARE IMPRESSED WITH ECONOMIC TRENDS HERE OVER PAST SEVEN OR EIGHT MONTHS AND GIVEN SLACK LOAN DEMAND IN U.S., MANY ARE REPORTED CONSIDERING MODERATE EXPANSION OF EXPOSURE IN YUGOSLAVIA.

2. INFLATION. UNOFFICIAL DATA SHOW FIRST QUARTER INCREASE OF 1.4 PERCENT IN PRICES OF INDUSTRIAL PRODUCTS, 1.3 PERCENT INCREASE IN RETAIL PRICES AND 2.3 PERCENT RISE IN COST-OF-LIVING COMPARED WITH DEC 31, 1975. YUGOSLAV BANKERS CITE THIS DATA AS EVIDENCE OF COUNTRY'S INFLATION HAS BEEN CUT TO QUOTE EUROPEAN LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BELGRA 02707 01 OF 02 240950Z

STANDARDS UNQUOTE AND SOME HAVE PRIVATELY PREDICTED ACHIEVING AN ANNUAL RATE OF INFLATION AS LOW AS 10 PERCENT. COMMENT: INFLATION DATA REPRESENTS REMARKABLE TURN-AROUND FROM FIRST HALF 1975 AND YUGOSLAV LEADERS ARE UNDERSTANDABLY PLEASED WITH INFLATION FIGURES OVER PAST SIX MONTHS. THEY SAY THIS TREND WILL CONTINUE ESPECIALLY SINCE NEW SOCIAL ACCORDS, DESIGNED TO CURB INFLATIONARY IMPETUS FROM WAGE PUSH AND OVER-INVESTMENT, OFFER HOPE THAT THESE TWO CHRONIC SOURCES OF INFLA-

TIONARY PRESSURE CAN BE NEUTRALIZED DURING 1976. ADDITIONALLY, THE VERY HIGH INCREASE IN IMPORT PRICES DURING 1974 HAVE NOW WORKED THEIR WAY THROUGH THE SYSTEM AND NO LONGER ADD FUEL TO DOMESTIC PRICE RISES. HOWEVER, IN EVALUATING INFLATIONARY PROSPECTS FOR 1976, THREE QUALIFYING POINTS ARE IN ORDER: (A) SOME OF RECENT PRICE STABILITY IS ARTIFICIAL, REPORTEDLY DUE TO SOCIAL/POLITICAL PRESSURES FROM GOY AND LCY; (B) INDUSTRIAL PRODUCTION IS GROWING TOO SLOWLY AND AUTHORITIES PROBABLY WILL BE FORCED TO TRY TO STIMULATE DOMESTIC DEMAND; AND (C) THE FIRST QUARTER CURRENT ACCOUNT SURPLUS HAS CAUSED DOMESTIC MONEY SUPPLY TO GROW MUCH MORE RAPIDLY THAN ANTICIPATED. ON BALANCE, WE DOUBT OPTIMISTIC INFLATIONARY FORECASTS OF 10-12 PERCENT ARE COMPATIBLE WITH ACHIEVING THE PROJECTED GROWTH OF PRODUCTION AND EXPECT TO SEE PRICES INCREASE MORE RAPIDLY IN SECOND HALF OF YEAR UNLESS PRODUCTION STAGNATES. (SEE REF C)

3. INDUSTRIAL PRODUCTION. FIRST QUARTER GROWTH OF INDUSTRIAL PRODUCTION IN 1976 WAS ONLY 2.8 PERCENT GREATER THAN IN FIRST QUARTER 1975, A RATE SIGNIFICANTLY BELOW THE RELATIVELY MODEST ANNUAL TARGET OF 5 PERCENT. THE LOW GROWTH OF PRODUCTION IS ACCOMPANIED BY WEAK DOMESTIC DEMAND, HIGH INVENTORIES OF FINISHED PRODUCTS IN MANY INDUSTRIES, DECLINING STOCKS OF RAW MATERIALS AND SEMI-MANUFACTURES AND A REPORTED SHORTAGE OF WORKING CAPITAL. REVERSING LAST YEAR'S TREND, EXPORT INDUSTRIES ARE NOW A MAJOR STIMULUS TO INDUSTRIAL PRODUCTION. COMMENT: THE LOW THREE-MONTH GROWTH FIGURES REPRESENT A RATE OF DEVELOPMENT THAT IS PROBABLY POLITICALLY UNACCEPTABLE OVER THE LONG Haul AND WE BELIEVE YUGOSLAV AUTHORITIES WILL SOON MOVE TO STIMULATE DOMESTIC DEMAND PROBABLY THROUGH INCREASED CONSUMER CREDITS, SELECTIVE CUTS ON TURNOVER TAX AND STIMULATION TO PRIVATE RESIDENTIAL CONSTRUCTION. YUGOSLAVIA'S GROWTH TARGET LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 BELGRA 02707 01 OF 02 240950Z

FOR 1976 OF 5 PERCENT IS MODEST IN TERMS OF PAST ACHIEVEMENT BUT IT APPEARS EVEN THAT LEVEL WILL NOT BE EASILY ACHIEVED. WE BELIEVE

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BELGRA 02707 02 OF 02 240719Z

20

ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 DODE-00 PA-01 PRS-01 AGR-05 SAJ-01

/093 W

----- 094155

R 231430Z APR 76

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 6405

USMISSION OECD PARIS

USMISSION EEC BRUSSELS

AMCONSUL ZAGREB

LIMITED OFFICIAL USE SECTION 2 OF 2 BELGRADE 2707

EFFORTS TO BOOST PRODUCTION MAY IN TURN HAVE SOME NEGATIVE EFFECTS IN COMBATING INFLATION AND COULD SPILL OVER INTO BALANCE OF PAYMENTS AREA.

4. THE NEW ACCOUNTING/PAYMENTS SYSTEM. THE LAW ESTABLISHING YUGOSLAVIA'S NEW PAYMENT SYSTEM OF QUOTE REALIZED SALES UNQUOTE, REPLACING THE FORMER QUOTE INVOICE SALES UNQUOTE SYSTEM, IS BEING IMPLEMENTED (SEE REFTEL B). HOWEVER, THERE HAVE BEEN PROBLEMS WITH THIS LAW BEGINNING IN FEBRUARY WHEN ONLY ABOUT ONE-HALF OF THE COUNTRY'S ENTERPRISES REGISTERED THEIR OUT-STANDING CLAIMS ON TIME. SUBSEQUENTLY, SOME MANAGERS AND FINANCIAL SPECIALISTS IN SEVERAL ENTERPRISES REPORTEDLY RESIGNED IN THE WAKE OF THE NEW SYSTEMS'S INTRODUCTION, PRESUMABLY SINCE THEY UNWILLING TO ACCEPT LEGAL BURDEN OF PERSONAL RESPONSIBILITY FOR PAYMENT OF OBLIGATIONS REQUIRED BY NEW SYSTEM. CURRENTLY, ENTERPRISES' UNCERTAINTY ABOUT THE NEW SYSTEM IS REPORTEDLY SLOWING COMMERCIAL TRANSACTIONS  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BELGRA 02707 02 OF 02 240719Z

WITH RETAIL TRADE ENTERPRISES PLAGUED BY A SHORTAGE OF WORKING CAPITAL, RELUCTANT OR UNABLE TO ORDER FINISHED GOODS. THE LAW, BY DRYING UP DEMAND BASED ON OVER-VALUED ASSETS AND BY PLACING A PREMIUM ON BANK AND ENTERPRISE LIQUIDITY, HAS PROBABLY CONTRIBUTED TO THE SLACKENING OF DOMESTIC DEMAND.  
COMMENT: SENIOR YGUOSLAV OFFICIALS HAVE STRESSED IMPORTANCE OF

REALIZED SALES SYSTEM FOR BRINGING DISCIPLINE OF MARKET MORE DIRECTLY INTO ENTERPRISE DECISIONS AND CURBING CHRONIC OVER-SPENDING BASED ON OVER-VALUED ASSETS. ONE SENIOR OFFICIAL HERE ALSO PREDICTS THE LAW WILL STIMULATE MERGERS AMONG ENTERPRISES, PERHAPS AS WEAKER FIRMS UNABLE TO COMPLY WITH NEW SYSTEM ARE ABSORBED BY FINANCIALLY STRONGER ENTERPRISES. PRESS ARTICLES QUESTIONING THE EFFECTIVENESS OF THE NEW SYSTEM HAVE APPEARED THROUGHOUT THE COUNTRY SPARKED BY GENERAL UNCERTAINTY ON ONE HAND AND ON THE OTHER, BY THE THREAT WITH OBVIOUS POLITICAL IMPLICATIONS OF EMINENT BANKRUPTCY FOR MANY SMALL FIRMS. THE LAW'S PROVISIONS HAVE BEEN SLIGHTLY EASED BY LENGTHENING THE MAXIMUM TIME PERMITTED FOR SETTLEMENT OF DEBT. BUT DESPITE THE GENERAL UNCERTAINTY AND COMPLAINTS FEDERAL OFFICIALS HAVE SAID UNEQUIVOCALLY THE BASIC CHANGES MANDATED IN THE LAW WILL BE FULLY IMPLEMENTED. (IRONICALLY A DESIRE TO ENSURE BANK LIQUIDITY IN THE INITIAL PHASES OF THE NEW PAYMENT SYSTEM IS A MAJOR REASON WHY THE NATIONAL BANK HAS BEEN RELUCTANT TO REDUCE THE GROWTH OF MANEY SUPPLY AND ABSORB SOME OF THE LARGE CASH BALANCES IN COMMERCIAL BANKS, RESULTING FROM FIRST QUARTER CURRENT ACCOUNT SURPLUS.)

5. REGUALTION AND COORDINATION OF ECONOMY. YUGOSLAV AUTHORITIES CONTINUE TO TRY AND FIND EFFECTIVE MECHANISMS TO COORDINATE ECONOMIC ACTIVITY AND REDUCE THE INDISCIPLINE AND QUOTE CHAOS UNQUOTE THAT CHARACTERIZED INVESTMENT DECISIONS FOLLOWING THE EXTREME NOMIAL DECENTRALIZATION OF THE 1974 CONSTITUTION. IN ADDITION TO THE STABILIZATION MEASURE ADOPTED IN THE SUMMER OF 1975 THERE SEEMED TO BE AT LEAST FIVE INTERRELATED MECHANISMS BEING USED TO ACCOMPLISH THIS: (SEPTEL WILL DISCUSS THESE MECHANISMS IN GREATER DETAIL)

(A) POTENTIALLY MOST IMPORTANT IN TERMS OF IMPROVING THE QUALITATIVE STRUCTURE OF THE YUGOSLAV ECONOMY IS THE NEW FIVE-YEAR DEVELOPMENT PLAN CURRENTLY BEING CONSIDERED.

(B) A GREATER TOP-LEVEL LCY AND GOY ATTENTION TO AND LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BELGRA 02707 02 OF 02 240719Z

MONITORING OF ECONOMIC ACTIVITY;

(C) INCREASED LCY, TRADE UNION, AND FEDERAL CHAMBER OF ECONOMY COORDINATION EFFORTS IN THE PROCESS OF CONCLUDING SOCIAL ACCORDS AND SELF-MANAGEMENT AGREEMENTS ON IMPORTANT ECONOMIC ISSUES;

(D) MORE EFFECTIVE USE OF MONETARY AND CREDIT POLICY AND NATIONAL BANK AUTHORITY IN CONTROLLING FOREIGN INDEBTEDNESS AND CHANNELING FOREIGN BORROWING INTO PRIORITY INVESTMENT;

(E) STIMULATION OF VERTICAL INTEGRATION AMONG MAJOR INDUSTRIES.

COMMENT: EFFORTS TO INCREASE COORDINATION IS ECONOMY HAVE BEEN REASONABLY SUCCESSFUL BUT AS YET, THERE HAS BEEN NO AGREEMENT ON SPECIFIC MAJOR STRUCTUAL CHANGES AND MECHANISMS TO IMPLEMENT

THOSE CHANGES. THE FIVE-YEAR PLAN IS A MAJOR EFFORT TO DO SO BUT CONFLICTING REGIONAL AND ECONOMIC INTERESTS, COMBINED WITH EXTREME NOMINAL DECENTRALIZATION OF ECONOMIC UNITS, CONTINUE TO COMPLICATE THIS EFFORT.

6. FURTHER COMMENT: THE ECONOMIC MOSIAC HERE HAS CHANGED SIGNIFICANTLY IN THE PAST EIGHT MONTHS. MOST OBSERVERS, INCLUDING U.S. BANKERS, ARE FOCUSING ON THE INFLATION AND BALANCE OF PAYMENTS FIGURES AND CHARACTERIZING FIRST QUARTER RESULTS AS QUOTE VERY GOOD NEWS UNQUOTE. INDEED, THE INFLATION AND BALANCE OF PAYMENTS FIGURES DO REPRESENT SUBSTANTIAL AND IMPORTANT IMPROVEMENT. HOWEVER, THAT IMPROVEMENT IS PARTIALLY DUE TO ADMINISTRATIVE MEANS THAT HAVE NOT CORRECTED THE UNDERLYING CAUSES OF EARLIER PROBLEMS AND THE IMPROVEMENT IS ACCOMPANIED BY A SLOW-DOWN IN PRODUCTION AS WELLAS ECONOMICALLY, TROUBLESOME SHOULD IT CONTINUE. WHILE THE FIVE-YEAR PLAN APPEARS A DETERMINE EFFORT TO PROVIDE A PROGRAM FOR QUALITATIVE CHANGE AND RATIONAL DEVELOPMENT IN THE YUGOSLAV ECONOMY, IT IS BY NO MEANS CERTAIN THE PLAN IN ANY STRONG FORM CAN BE AGREED UPON, MUCH LESS IMPLEMENTED.

STRONG FORM CAN BE AGREED UPON, MUCH LESS IMPLEMENTED. EVEN NOW, THERE IS SOME QUESTION ABOUT THE ALMOST UNIVERSALLY FAVORABLE INTERPRETATION BEING GIVEN TO FIRST QUARTER RESULTS. POLITIKA, APRIL 19, REPORTED MILAN RUKAVINA-SAIN, PRESIDENT OF THE CROATIAN CHAMBER OF ECONOMY, AS CRITICIZING POSITIVE EVALUATION OF FIRST QUARTER TRENDS AND ARGUING FOR IMMEDIATE MEASURES TO REVIVE PRODUCTION. JUST AS IN 1974 AND BEGINNING 1975 WE CAUTIONED AGAINST EXCESSIVE PESSIMISM, WE NOW CAUTION LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 BELGRA 02707 02 OF 02 240719Z

AGAINST EXCESSIVE OPTIMISM-- THE ECONOMIC SITUATION HERE IS GREATLY IMPROVED, BUT OBVIOUS PROBLEMS REMAIN.  
SILBERMAN

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PRODUCTION DATA, QUARTERLY REPORTS, ECONOMIC REPORTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 23 APR 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** BoyleJA  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976BELGRA02707  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760156-0220  
**From:** BELGRADE  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t19760431/aaaaazwv.tel  
**Line Count:** 314  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 76 BELGRADE A-82, 76 BELGRADE 657, 76 BELGRADE 2053  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** BoyleJA  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 31 MAR 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <31 MAR 2004 by ShawDG>; APPROVED <27 JUL 2004 by BoyleJA>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** DEVELOPMENTS AND TRENDS IN YUGOSLAV ECONOMY, FIRST QUARTER 1976  
**TAGS:** ECON, EGEN, YO  
**To:** STATE EC BRUSSELS  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006